

**CITY OF HORSESHOE BAY**  
**CITY COUNCIL WORKSHOP MEETING**  
**MINUTES**

August 30, 2016

The City Council of the City of Horseshoe Bay held a Public Workshop Meeting at City Hall, August 30, 2016 beginning at 9:00 a.m. in accordance with duly posted notice of said meeting with the following members present:

Stephen T. Jordan, Mayor  
Craig Haydon, Mayor Pro Tem  
Cynthia Clinesmith, Council Member  
Jerry Gray, Council Member  
David Pope, Council Member  
Reagan Lambert, Council Member

The posted agenda for this meeting is made a part of these minutes by attachment and the minutes are herewith recorded in the order the agenda items were considered with the agenda subject and item number shown preceding the applicable paragraph.

1. Call the Meeting to Order and Establish a Quorum: Mayor Jordan called the meeting to order at 9:00 a.m. with a quorum present. Mayor Jordan gave the invocation.
2. Discuss, Consider and Take Action Regarding Health Insurance Renewal: Lee Cameron with Frost Insurance gave a presentation regarding the cost of renewal of insurance with Blue Cross/Blue Shield which was a 4% increase versus the cost to move the City's health insurance to United Healthcare which came in with a 3.4% decrease from the current cost. He also advised the Council that moving the group dental from BCBS to Principal would result in an 11.1% savings from the renewal cost. Mr. Cameron stated the Group Life/AD&D, Voluntary Life, Group LTD and Voluntary STD with Dearborn National is under a two-year rate guarantee so there would be no increase there. The annual cost of Employee benefits were shown as a 7.0% decrease if moved to the recommended carriers. Council Member Clinesmith expressed concern regarding frequent insurance provider changes and the effect on staff. Council Member Gray reported he had heard from a medical professional that UHC had a questionable reputation. Both Mayor Pro Tem Haydon and Council Member Pope said they have UHC and neither had experienced any problems. Mr. Cameron recommended that the Council move the City's insurance to the new carriers. Council Member Pope made the motion to move the insurance as recommended by Mr. Cameron, seconded by Mayor Pro Tem Haydon. Motion passed unanimously (5-0).
3. Budget Workshop: City Manager Farmer reviewed the FY 2017 Budget Summary from the meeting packet and staff answered Council questions. Council Member Clinesmith said she would like to see a "road map" of where necessary to increase services in the future in order to better plan. Council discussed the City's goal to keep around six months or \$2.6 million in the Operating Reserve Fund and that the FY Budget 2017 Budget was based on keeping the

current tax rate. Council Member Pope stated he had been more involved in the budget process probably more than others on the Council and it is a good process. It starts with each department looking at their needs and he thought the budget was conservative and probably tighter than in previous years. Mr. Pope added that what they had seen in the last year was that when there was an unexpected expenditure the City had found a place in the budget to cover that. He thought that room was still in there and he thought the \$0.25 rate would get the City where it needed to be for this year. Council Member Gray spoke regarding the Capital Improvement Projects and there are several million dollars of projected capital improvements. He asked Finance Director Anderson about his comfort level regarding the City's ability to handle those requirements long term. Mr. Anderson replied that the bond issue that will take place in September was included in the budget and that it was primarily to give the City \$1 million to fund the two new fire engines and about \$2.9 million to go forward with the West Water Plant expansion. Mr. Anderson reported the City plans include using the reimbursement from the Summit Rock PID to cover expansions that are applicable to that development. He said the West Water Plant expansion was due to the Summit Rock development so the proceeds from the Summit Rock PID could be used to make the debt service payments on the \$2.9 million for the Utility Fund so there will be no impact from a financial prospect nearly as much as what it would if the bonds were issued without this income. Mr. Anderson said they were trying to be very creative from a financial prospective to try to minimize use of City tax funds or rate funds to pay debt and things like that. He added he did have one concern regarding this first year's payment on the \$1 million for the fire engines would be very minimal; however, the second year there would be a debt service payment due early in the year, in February which would be principal and interest amounting to approximately \$160,000 to \$180,000 which would have to be paid. Mr. Anderson explained he was aware of the Council's desire to keep the rate at \$0.25, but if the rate were increased to \$0.26 the money could be accumulated to help pay the debt service payment early in the year which would make things much easier. He added that depending when taxes are collected and when the revenue comes in, staff might have to ask Council to use some of the \$2.6 million in the City's Operating Reserve early in the year to make the debt service payment early in the year and replenish it later in the year; however, it would be up to Council as staff does not spend that reserve without their approval. Mr. Anderson stated he just wanted Council to be aware of this possibility depending on how the tax revenue comes in. Council Member Gray said the City continues to stack on top of that with the capital improvement projects downstream and he did not want that to happen would be for Council to show up for the budget meeting next year and find out they would need to discuss a \$0.30 tax rate instead of a \$0.26 rate. Mr. Anderson said the City might issue additional debt in 2018 depending on how quickly Summit Rock builds out and then there is the possibility the needed tax rate would exceed the roll back rate. Council Member Clinesmith stated she did not want to just keep pushing it down the road simply because they do not want to be the ones to increase taxes. She wanted to make sure when you look down the road for several years the Council was being fiscally responsible and building that out so the City does not have to go out for a bond. Mayor Jordan reported when Community Services Department Director Koska give his presentation that there are some of the capital improvement projects that could be delayed. Council Member Lambert stated the Council just listened to an insurance advisor and he recommended the City switch to United Healthcare and the Council voted five to zero to do that. He said he was not sure why this would be any different when

the City's Finance Director made a recommendation to increase the tax rate and why that would be any different. Council Member Lambert added the cost of things increase all the time. The City has been at \$0.25 tax rate since 2010 and everything the City purchases goes up so the cost of doing business as a city was going up. He said he would prefer to do what Mr. Anderson was suggesting and do a one cent increase and be confident with the understanding there has been no tax increase in 5-6 years and everybody understands the cost of doing business goes up every year and not every five year. Mr. Anderson said it was the Council's decision and he was just providing them with the information. Council Member Pope said he thought this was a good budget balanced with the \$0.25 rate. Mayor Pro Tem Haydon spoke against increasing the tax rate and the public perception in his opinion was important.

Community Services Director Jeff Koska reported the process for the rates begins with the budget. After that is determined he takes the Rate Model and goes through a process of developing the rates to cover the balanced budget with all funds involved and that is what he has done for this year. He confirmed that in 2006 the Council decided to make the Utility Fund self-supporting and independent of the General Fund. Mr. Koska said over a period of five years there was a reduction in the tax rate and an increase in the utility rates to raise it up where it would cover all the expenses and capital expenses. He said over the last eight years he had used a rate model to input costs and develop revenues then look at the last couple of years of actual numbers to determine accurately how it would affect the rate and also take into consideration Rate Stabilization Funds to subsidize that amount if required. Mr. Koska said he uses an average water demand year to ensure rates and expenses are conservative. However; this year due to the rains the rates decrease the revenue from utility rates and revenues would be below the budget projections, this in turn would affect the outcome of the Utility budget at the end of the year. Mr. Koska reported they would be behind in revenue and would need to increase the rate by 14.6% across the board to make the budget balance. He said there are some projects that were planned in the FY2107 CIP Budget that could be postponed to prevent the rates from increasing by this large of an amount. Mr. Koska said the rehabilitation of the 750,000 gallon High Storage tank could be safely pushed a year, but might cost a little more in the end. He said he could also push the purchase of a piece of equipment used to push brush at the Recycling Center and just rent one for the present. Mr. Koska reported, if you look at the fact that the last eight years water sales have declined overall due to drought restrictions and changing customers' behavior; financially over time it starts to have a negative revenue affect and the City is beginning to see that. Mr. Koska reported the revenue requirements for capital projects in the near future include replacement of the wastewater treatment plant; which is on the horizon in 2018 and can't be pushed back due to TCEQ requirements. He said the City has to look down the road to covering the bond costs for major projects and this would be accomplished by increasing rates. He would prefer to avoid a very large increase later on as opposed to small incremental increase over time. Mr. Koska said funds pulled from the Summit Rock PID Fund would not be recurring so they would only be a short term fix; however, long term there would be bond issuances that would require funding to cover the infrastructure the City needs. Mr. Koska provided a rate comparison list of area utility suppliers showing that the City had one of the lowest cost for utilities indicating the City has competitive rates. Due to the rising costs of maintaining the system rates would increase accordingly. He said over the past five years what had driven the cost up had not been the operational costs but debt issuances the Utility Fund had

to carry. Mr. Koska reported when they originally developed the rate model they were predicting about \$250,000/year on debt but now it was close to \$800,000/year. Council Member Clinesmith asked about the Rate Stabilization Fund balance and Mr. Koska replied he thought it had drawn down to \$6,000; however, \$300,000 revenue balance expected at the end of this fiscal year and this would roll over into that fund. In addition Staff is now working with the Summit Rock developer to get developer reimbursements for expenses expended for the West Water Plant project which could amount to over to \$700,000. Mr. Anderson commented about the reimbursement from the developer and having to issue bonds. He explained the City was allocated a certain dollar amount from the developer as reimbursement for infrastructure costs for Summit Rock related utilities. This reimbursement is collected from PID fees and PID fees are only collected on lots that have been sold. Because of that the City only collects about \$250,000 per year in PID fees so, while the City might be allocated \$5.4 million in developer reimbursements the City could only recoup this over a period of time as lots were sold and payments were made into the PID fund. Mr. Anderson said that was the reason for issuing bonds now and using the current money received from the PID fund to make the debt service payments, but the next iteration of the expansion of the City's utility infrastructure, Wastewater Plant Expansion, would not have the PID money for the debt service payments and the City would have to issue additional bonds which was why Mr. Koska was talking about having to increase his rates to cover those debt service payments. Council Member Gray said with the vast majority of the capital expenses being in the utility area they really don't impact the tax rate but do impact the utility rates. Mr. Anderson replied that in the beginning the Utility Fund was tax subsidized which allowed it to accumulate the funds in the Rate Stabilization Fund. He said that was why it was ok to pull down that fund to pay for the Streets Project. Then when the decision was made to make the Utility Fund self-sufficient that was when they were able to lower the tax rate. Mr. Anderson said since the Rate Stabilization Fund had been drawn down so low that if the tax rate was increased the additional income could be put back into the Rate Stabilization Fund if the Council chooses to do so. Council Member Clinesmith said she was all about being fiscally responsible and having accountability; however, she did not want the staff to feel like they had to build a budget for a \$0.25 tax rate even though it might not be what they needed. She wanted the staff to tell the Council what they need and what it would cost and then it was the Councils' job to inform the community that this was what it would cost to provide what the City needed. Mayor Jordan explained the Council's original intent for the Rate Stabilization Fund as well as their intent to use ad valorem taxes for the Street Improvement Project and the estimate of a five to six cent tax increase to cover the cost. He said the Council made the business decision to use the funds available from the Rate Stabilization Funds. Mr. Anderson stated by using those funds it saved the City hundreds of thousands of dollars in interest cost over those years. He said those funds were now depleted and they needed to decide what to do. Council Member Gray asked for an explanation where the funds would come from to replenish the Rate Stabilization Fund. Mr. Anderson reported that initially a lot of those funds came from taxes and in 2006 the tax rate was \$0.50/\$100 and the City didn't need that kind of funding to operate the City so they were subsidizing the Utility Fund. The excess funds from both the tax income and utility fund income were moved to the Rate Stabilization Fund and that accumulated over a number of years reaching almost \$6 million at one point prior to his time with the City. Mr. Anderson stated the Street Improvement Project was approved by Council and they anticipated issuing debt to pay for



the streets and it would probably take a five to six cent increase to pay for that; however, they decided to spend the money on hand and from the Rate Stabilization Fund. Mr. Anderson said they are anticipating an excess amount of \$370,000 if the Utility Fund comes in on budget that can be put into the Rate Stabilization Fund at the end of this fiscal year and in addition any reimbursable expenses can be reimbursed from the Summit Rock PID for about \$700,000 to \$800,000 which could also go back into the Fund and get it back to about \$1 million. Mayor Jordan said he thought they would all feel more comfortable if there were about \$1 million in the Fund as a cushion. Council Member Pope stated he thought of the Rate Stabilization Fund as being the same as retained earnings in a corporation which is the results of prior operating results. Mr. Anderson said the use of the funds for the streets were actually set up as a loan and could be repaid if the Council chose to do so. Mr. Anderson confirmed much of the money in the Fund was accumulated from the Utility Fund. Community Services Director Jeff Koska told Council he would bring the ordinance to Council next month to approve the increased utility rates.

The meeting adjourned for a recess at 10:40 a.m.

The meeting resumed at 10:50 a.m.

City Manager Farmer reviewed the changes from the initial draft budget and the current proposed budget. After some discussion, Mayor Jordan reported that the proposed budget had been filed with the City Secretary as required in August.

4. Discuss, Consider and Take Action Regarding Approval for Improvements to Yard Waste Collection Process at the Reclamation/Recycle Center and Proposed Rates: Community Services Director Koska gave a presentation regarding the need for changes to be made regarding the brush collection system due to the increased amount of volume. He said he believed due to the low charge to dump that contractors were bringing brush from jobs other than those done in the City even though they are required to provide proof of a job in the City to dump. Mr. Koska proposed relocating the open top containers to an area more easily accessed and safer to the residents and the recycle containers to where the open top containers are currently and to add traffic flow striping. He said these changes would cost approximately \$65,000 and he would like to do a budget amendment to transfer those funds from unused capital funds and proceed now in order to complete the project prior to the fiscal year-end. Council Member Gray asked about curb side recycling and should this be postponed until that decision could be made. City Manager Farmer said in the past the Council did not choose to implement curb side recycling due to the number of part-timers. Mayor Pro Tem Haydon made the motion to approve a budget amendment for up to \$65,000, from unfunded capital projects to a line item for this upgrade, seconded by Council Member Pope. The motion passed unanimously (5-0). Secondly, Mr. Koska proposed changing the process for the brush due to the large volume and the inability to burn due to increased restrictions by TCEQ and the impact smoke on new residents moving closer to the burning area. This caused the City to resort to grinding the brush which is substantially increased costs. He said his goal was how to cut down the volume by increasing the cost to dump as well as reducing the hours. By only allowing contract dumping to come three days per week and by employing the weekend attendant to be there during hours it is open to watch every load that comes off to better control the volume and any trash being dumped at the brush site.

Mr. Koska said he thought these two changes should get brush volumes to a manageable level and reduce the cost to grind on an annual basis. His proposal was to allow residents that bring brush in their own personal truck access seven days per week at no charge up to 100 cubic yards per year which is equal to about 25 truckloads. Mr. Koska said he proposed increasing contractors' annual fee for the permit from \$50 to \$75 and change the volume charges to a tiered plan as shown in the packet. He felt that by changing the charges to be based on volume it would be a deterrent to contractors that bring brush to the Recycle Center from outside the City limits. Council Member Clinesmith made the motion to approve the proposed cost increase for dumping yard waste as presented, seconded by Council Member Pope. Motion passed unanimously (5-0). Mayor Jordan suggested an article be placed in the newspaper regarding this.

The budget meeting continued with a review of the tax rates in area cities including information on sales tax and property tax rates. City Manager Farmer said this was basically an FYI item. Council Member Gray asked if some of the cities with higher ad valorem taxes might be subsidizing the utilities. Mr. Farmer said they did not research that.

Next, the Council reviewed the Five-Year Capital Plan explained by Mr. Farmer. He stated he broke out vehicles and equipment for the Police Department and equipment and training for the Fire Department. Mr. Farmer said the Five-Year Capital Plan would be on the agenda for the September 22, 2016 meeting.

Regarding, a Pickle Ball court, Mr. Farmer reported if the City went with one tennis court with two Pickle Ball courts on it, no basketball goals and no lights the cost would be \$30-35,000. He said if the City did two tennis courts with four Pickle Ball courts, four basketball goals and lighting it would go up to \$103,000. The City set up an account at American Bank of Texas so contributions for this project could be tax deductible donations. Mayor Jordan said he would like to see the City provide matching funds. Council Member Pope reported he would make a personal contribution; however, he would not be in favor of matching funds. Council Member Lambert said he would be in favor of matching funds from the City. Mayor Pro Tem Haydon questioned staff regarding the issue of available parking if this facility is built. Council Member Gray said the Council will be reviewing the recommendations of the Long Range Planning Advisory Committee and he thought it should be incorporated into the Long Range Plan in order to assure the Council would be doing the right thing and he was not in favor of any action on this item until after the Long Range Plan was adopted. He said the Advisory Committee's report asked if the City should be looking for the area around American Bank for a park the City with running and walking tracks and maybe locate the Pickle Ball courts at that location.

City Manager Farmer said Council Member Clinesmith asked that a report be included to show the increase in the number of employees since the City incorporated in 2005. The information showed that prior to March 2006 there were 53 full-time employees and there are currently 78 full-time employees. Council Member Clinesmith thanked Mr. Farmer for the information and Mayor Jordan said he would like to see this each year.

City Manager Farmer reported this was the second scheduled budget workshop and at the regular Council meeting this afternoon there would be a public hearing regarding the

proposed tax rate and an announcement regarding the date of the meeting to adopt the tax rate.


5. Adjournment: Mayor Pro Tem Haydon made a motion to adjourn the meeting at 11:38 a.m. The motion was seconded by Council Member Pope. The motion passed unanimously (5-0).

APPROVED this 20<sup>th</sup> day of September, 2016.

**CITY OF HORSESHOE BAY, TEXAS**

  
Stephen T. Jordan, Mayor

**ATTEST:**

  
Teresa L. Moore, TRMC  
City Secretary

